AR40

GREAT LAKES PAPER

ANNUAL REPORT 1969

Within the past five years over ten million new trees have been planted in our company's cutover forest areas as part of a joint regeneration agreement with the Ontario Department of Lands and Forests. In the picture below, one of our company foresters is checking new growth on a young jackpine which will take 70 years to grow to maturity.

THE GREAT LAKES PAPER COMPANY, LIMITED

1969 ANNUAL REPORT FROM THE DIRECTORS

Directors listed on page 25

To the Shareholders

OUR EARNINGS increased substantially in 1969 over 1968 with recovery of our newsprint shipments from a low in 1968 and improvement in prices. We reached new highs in 1969 in total shipments, total sales and operating profit. These various items are amplified and explained in later pages dealing with 1969 results in detail.

We expect our upward trend to continue as our markets for newsprint and chemical pulp show increasing promise for 1970. In spite of the anticipated growth in our sales, our earnings will continue to be burdened by steadily rising costs. Dealing effectively with this problem is, we believe, the biggest challenge facing us as we enter the new decade.

TWO NEW DIRECTORS joined our board of directors in 1969, replacing members who resigned during the year. Ian D. Sinclair, president of Canadian Pacific Railway Company, was appointed to the board on March 6 replacing M. C. G. Meighen and was duly elected by the shareholders at the annual meeting on April 16. Robert A. Brown, Jr., president of Home Oil Company Limited, was appointed on October 29 replacing Ross Clarkson.

WE CONSTANTLY SEEK to improve our methods of providing information for our shareholders and the financial community. This year, for better readability, we have made several changes in the typography and format of our annual report. For clearer comparison with previous years, we have also redesigned our tables and charts.

To the regular contents of the report we have added new features such as a chart showing return on equity (page 11) and a new form of ten-year tonnage summary on page 24. We hope you will find these changes helpful.

On behalf of the directors,

March 25, 1970

C. J. WARWICK FOX, *president*

ON INSIDE PAGES

Dollars in this report are Canadian unless otherwise identified. Amounts per share are based on the total shares issued up to the end of 1969 as reported herein.

Scoreboard

	1969	1968	PERCENT UP OR DOWN IN 1969
newsprint paper, tons shipped	350,709	314,503	up 11.5
chemical pulps, tons shipped	167,918	157,262	up 6.8
total shipments to customers	518,627	471,765	up 9.9
'000 omitted			
total sales (U.S. dollars)	$75,226	$66,086	up 13.8
profit on U.S. dollar exchange	5,518	4,737	up 16.5
sales, in Canadian dollars	80,744	70,823	up 14.0
operating profit	17,951	14,455	up 24.2
interest charges, see page 6	2,036	1,440	up 41.4
depreciation and depletion	6,528	6,881	down 5.1
earnings before income taxes	10,446	6,359	up 64.3
provision for income taxes	5,407	3,270	up 65.4
NET EARNINGS: total amount	$ 5,039	$ 3,089	up 63.1
net per share	$ 1.40	$ 0.86	up 63.1
dividends declared: total	$ 3,603	$ 3,603	same
amount per share	$ 1.00	$ 1.00	same
% of net per share	71	116	down 38.8
cash flow, see page 7	$10,317	$ 8,520	up 21.1
working capital at year-end	26,334	7,139	up 269
fixed assets, at year-end	122,282	120,096	up 1.8
retained earnings, at year-end	25,854	24,949	up 3.6

Ten-year financial and tonnage summaries are shown on pages 22-23 and 24

OUR COMPANY

The Great Lakes Paper Company, Limited was incorporated under The Companies Act (Ontario) in 1936. We manufacture newsprint paper, bleached kraft pulp and unbleached sulphite pulp. Our mill and head office are at Thunder Bay, Ontario, this being the new name of the combined lakehead cities formerly known as Fort William and Port Arthur. Adjacent to the mill we hold 13,700 square miles of forest areas under licence.

Five Highlights of '69

1 Our earnings of $1.40 a share in 1969 took a sharp turn upward from $0.86 a share in 1968, when our newsprint shipments were seriously affected by strikes as explained in the results section.

2 Total shipments of 518,627 tons set a new high in 1969 compared with the previous high of 493,463 tons in 1967. Chemical pulp shipments were also at a new high of 167,918 tons in 1969 compared with 157,262 in 1968.

3 Total dollar sales of $75.2 million in 1969 set a new record versus our previous high of $69.2 million in 1967, reflecting improved prices in newsprint and pulp as well as increased shipments.

4 Our operating profit of $18 million in 1969 established a new high in comparison with our previous record of $17.9 million in 1966.

5 Our working capital increased from $7.1 million in 1968 to $26.3 million in 1969 mainly as a result of a $20 million bond issue.

REMINDER: YOUR PROXY

Shareholders not attending the Annual and General Meeting at the Royal York Hotel in Toronto on Wednesday, April 15, 1970 are entitled and invited to be represented by using the instrument of proxy enclosed with the combined notice of meeting and information circular mailed to you on February 12. Your signed and dated instrument of proxy should reach the Toronto address given in the notice not later than April 9. This would be appreciated and is recommended as being in your interest.

Since 1964 we have spent over $6.4 million on all our pollution control facilities and we are committed to further expenditures. The picture below shows completed parts of the kraft pulp mill primary effluent treatment plant which is only a portion of our overall pollution control program. This is discussed on page 11.

Earnings Up; New High in Tons, Sales

Net earnings of $5 million were up 63.1 percent from $3.1 million in 1968 representing $1.40 a share compared with $0.86 a share in 1968. This is a return to our more normal level of earnings following the drop in newsprint shipments in 1968 explained below. While our 1969 earnings also exceeded 1967 they were below the peak years of 1966 and 1965 shown in our ten-year summary on pages 22-23.

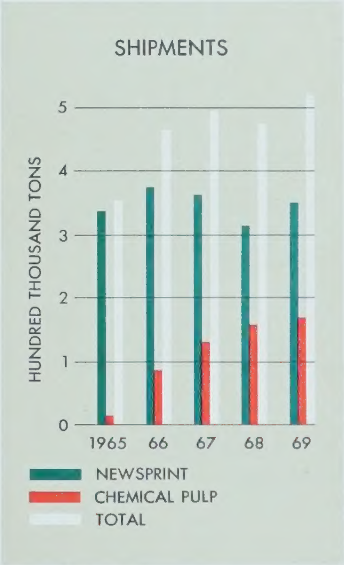
The most substantial increases in 1969 were made in the final quarter which was the strongest in our history. The fourth quarter saw new highs in total shipments, total sales and earnings. Tables showing a comparison of quarterly results are on page 12.

The improvement in our 1969 earnings reflects solid gains in shipments and prices tempered by increases in wage rates, electric power costs, freight rates, and cost of material and services. A major cost increase is in Ontario-Hydro rates for electric power. This is significant since we use as much electricity in the operation of our mill as a community of 100,000 people. In 1969 our Ontario-Hydro rates were increased by 11 percent and we face a further rise in 1970 which will mean an increase of 19 percent in two years.

Total Shipments at New High

Total shipments of 518,627 tons in 1969 were 9.9 percent higher than 471,765 tons in 1968 and 5.1 percent above our previous record of 493,463 tons in 1967. Newsprint shipments of 350,709 tons were 11.5 percent higher than 1968 shipments of 314,503 tons which were seriously affected by a major newspaper strike in Detroit lasting nine months and a two-week strike at our mill.

Our 1969 chemical pulp shipments of 167,918 tons were 6.8 percent higher than 157,262 tons in 1968 setting a new record high for the company. This increase was due to the steady growth in our bleached kraft pulp shipments beginning in 1966 when our kraft pulp mill went into operation. Our unbleached sulphite shipments showed a moderate increase during 1969.



Total shipments of 518,627 tons established a new record for our company in 1969. Chemical pulp shipments, which set a new high of 167,918 tons in 1969, have increased steadily since the opening of our kraft pulp mill in 1966.

Sales and Prices

Beginning January 1, 1969 the sale price of our newsprint was raised to $147.00 per ton, an increase of $5.00, to help offset sharp and continuing cost

increases. This price increase coupled with the strong recovery of our newsprint shipments discussed in the previous section were mainly responsible for the improvement in our earnings in 1969. But rising costs of materials, labor, electric power, freight and the growing cost of pollution control, continued to offset the effects of these market gains in spite of our efforts to hold costs down. As a result, we found it necessary on October 7 to announce a further increase in the sale price of our standard white newsprint to $152.00 a ton (delivered) effective January 1, 1970.

Kraft pulp prices strengthened appreciably in 1969 and by the end of the year had been restored to the level of the early 1960's. The improvement in prices and the steady increase in kraft pulp shipments made an important contribution to the increase in our earnings in 1969.

We were also able to make moderate gains in marketing our sulphite pulp as a result of the improvement in demand.

Dollar Sales at New High

As a result of the new high in our 1969 total shipments and the improvement in our prices, our total dollar sales, defined on page 23, set a new record in 1969 of $75.2 million, an increase of 13.8 percent over $66.1 million in 1968. Total dollar sales in 1969 were 8.7 percent over the previous high of $69.2 million in 1967. U.S. dollar exchange of $5.5 million also reached a new high in 1969 compared with $4.7 million in 1968 and $5.1 million in 1967.

Operating Profit at New High

Our operating profit of $18 million in 1969 established a new record exceeding the previous high of $17.9 million in 1966. The new high in 1969 raised operating profit 24.2 percent over $14.5 million in 1968. The substantial gain in our total sales in 1969 was mainly responsible for the improvement in operating profit despite rising costs referred to above. Earnings of $5.5 million in U.S. dollar exchange are included in the operating profit total.

SALES & EARNINGS

'000 omitted

	Total Sales	Oper. Profit	Net Earnings
1969	$75,226	$17,951	$5,039
1968	66,086	14,455	3,089
1967	69,223	17,511	4,210
1965	46,872	15,746	5,698
1960	38,409	10,181	2,697

Depreciation Down; Interest Up

Our depreciation was down to $6.5 million in 1969 compared with $6.9 million in 1968. The downward trend began in 1968, following the peak year of 1967

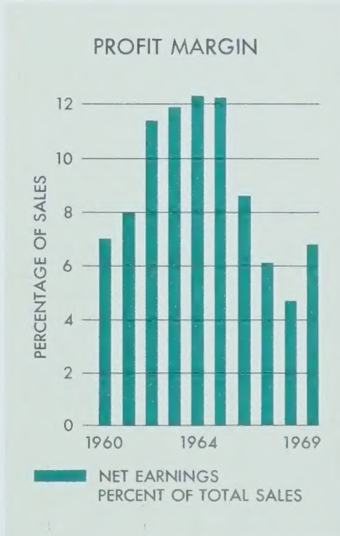
which was the first full year after completion of our kraft pulp mill. Depreciation, which includes depletion, is defined on page 23 and discussed on page 21 in the section on accounting policy.

Interest charges of $2 million increased 41.4 percent over $1.4 million in 1968 as a result of our $20 million bond issue in 1969 which is explained on page 8. The increase, however, was more than offset by interest we received from short-term investment of the proceeds of the bond issue.

Both depreciation and interest are shown in a chart on page 13.

Profit Margin Up

Our profit margin, which means net earnings as a percentage of total sales, was 6.7 percent in 1969 versus 4.7 percent in 1968, and 6.1 percent in 1967. Opposite is a chart showing profit margin over the past ten years.



Our net earnings of $5 million were 6.7 percent of total sales in 1969, a decided improvement over the ten-year low in 1968, but are still well below the level of the mid-1960's.

Our Use of Sales Revenue

Our 1969 sales revenue reached a new high of $80.7 million versus $70.8 million in 1968 and the previous high of $74.3 million in 1967. These figures are in Canadian dollars with profit from U.S. dollar exchange included.

Of our 1969 sales revenue, cost and charges took $75.7 million or 93.7 percent, over one-half of this amount being for wages, salaries, benefits and pulpwood. The remaining 6.3 percent of 1969 revenue was divided between 4.5 percent in dividends declared and 1.8 percent retained in the business.

This was an improvement over 1968 when we drew on retained earnings to maintain our dividend rate. At the end of 1969 our retained earnings were $25.9 million versus $24.9 million at the end of 1968. Retained earnings are defined on page 23 and their ten-year record starts on page 22.

EARNINGS PER TON

Net earnings in dollars per ton of total shipments have been as follows.

1969	1968	1965	1960
9.72	6.55	16.15	9.29

Cash Flow Up

Our cash flow, defined on page 23, was $10.3 million in 1969, up 21.1 percent over $8.5 million in 1968. As shown in the chart on page 9, this is the first increase in our cash flow since 1965. The peak years of 1964-67 reflect the reduced tax payments in those years as a result of the accelerated write-off for

tax purposes of the expenditures on our kraft pulp mill. Explanation of our policy on deferred income taxes is given on page 21.

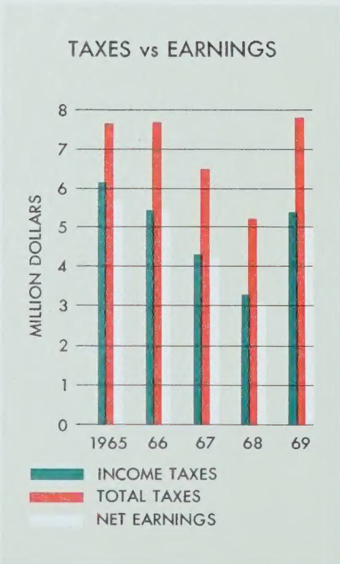
Our cash flow in 1969 consisted of the following items: $5 million in total net earnings; $6.5 million in depreciation and depletion charges less $1.2 million reduction in deferred income taxes.

Working Capital Increased

Our working capital at the end of 1969 amounted to $26.3 million versus $7.1 million in 1968. The large increase resulted from the $20 million bond issue. Working capital will be reduced as the proceeds from the bond issue are spent over the next few years on various projects referred to below.

$20 Million Bond Issue

A new bond issue of $20 million (Canadian funds) 8 percent, first mortgage sinking fund bonds, Series B, was made by the company on June 25, 1969. Accompanying the bonds are warrants to purchase a total of 200,000 common shares at a price of $31.00 per share up to July 1, 1974 and $33.00 per share after that date up to July 1, 1979. A total of $19.5 million was realized from the issue after deducting the underwriting discount and expenses of issue. Income from short-term investment of the proceeds is discussed in the foregoing section on interest.



Total taxes include Ontario stumpage dues, ground rent, fire tax and municipal taxes. Income taxes alone exceed our total net earnings.

Current planning and engineering studies are now in advanced stages for a capital expenditure program estimated to total $25 million financed in part from the bond proceeds. The various projects will include additions to effluent control systems, an additional steam turbine power generator, improvements and additions to harvesting and wood-handling facilities, modernization of paper machines and improvements to pulp and steam production facilities.

We paid off $4.3 million of long-term debt in 1969 and, in our 1969 current liabilities, provided $4.4 million for payments due in 1970. Our long-term debt balance at December 31, 1969, after deducting the above provision for 1970, was $37 million, including the new $20 million bond issue. Details of our bonds and debentures are shown on the balance sheet on page 19.

Capital Expenditures

A total of $2.7 million was spent in 1969 on additions to our existing facilities. A substantial portion was used in further construction of pollution control systems, discussed on page 11. The balance was divided among a number of other projects to improve the efficiency of our mill and woodlands operations and the quality of our products.

A new venture got under way in 1969 with the start of construction on a tall oil plant currently scheduled to go into operation early in the second quarter of 1970. Tall oil is produced by refining the soap skimmings that result in the kraft process which are currently being burned in the recovery furnace. This saleable by-product will be further processed by purchasers to separate fatty acids, resins and other ingredients used in the paint, dye, soap, petroleum and chemical industries.

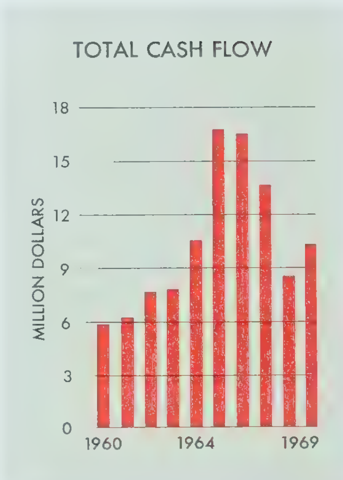
Dividends and Our Policy

Dividends declared in 1969 were $1.00 a share which represents 71 percent of our 1969 net earnings. It is our policy to raise capital for expansion mainly by borrowing and to repay from funds generated by expansion.

Woods Mechanization

Mechanization of our harvesting operations in the forest is a continuing objective. We must keep increasing productivity in order to stabilize wood costs while providing better working conditions for our labor force. Mechanization has freed the industry from the confines of seasonal pulpwood deliveries, permitting a steady supply throughout the year. As a result our investment in pulpwood inventories now represents approximately a three-month wood supply compared with more than six months in the early 1960's. This is significant in the face of the ever-increasing cost of carrying inventory. In an era of rapid expansion of requirements coupled with a shrinking labor market, mechanization is providing the tools to produce the wood and create a more acceptable working environment.

Progress in 1969 was again significant. We placed in operation six mechanical fellers which cut trees and lay them in a pattern for movement to roadside. These machines increase the mechanization of the cutting phase and



Improved earnings in 1969 were mainly responsible for the increase in our total cash flow over 1968. High levels in the mid-1960's were largely due to tax deferments resulting from the kraft mill construction as explained on page 7.

CASH FLOW

Year	Per Share	Per Ton*
1969	$2.86	$19.89
1968	2.36	18.06
1967	3.78	27.62
1965	4.63	47.29
1960	1.66	20.55

*Per ton of total shipments on page 24.

The technician in this picture is taking a sample of flue gas from one of our stacks to make laboratory tests by which we regularly measure and control odor and aerial emission, as explained on page 12. After some years of intensive efforts by outside experts and company personnel our odor control system now maintains a high level of efficiency.

permit work to be carried out around the clock. Component machinery for forwarding tree lengths from the stump area, to provide greater capability under a wide range of ground conditions, was also tested and put to work. A prototype short-wood processor which fells trees mechanically, delimbs and cuts them into eight-foot lengths on an automatic cycle was also acquired. This machine collects the pulpwood in a cradle at the rear, then unloads it at roadside for transfer to haul trucks.

Forest Management

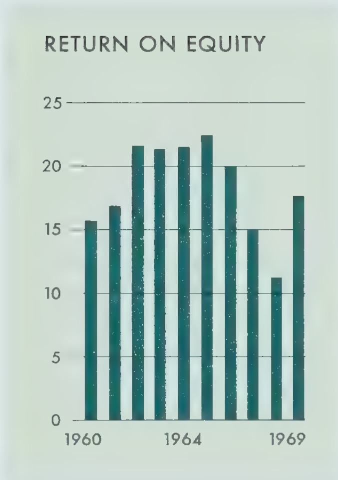
Our company adheres to a balanced program in the development of its forest areas. As well as our continuing efforts to improve mechanized harvesting techniques and systems, we work closely with the Ontario Department of Lands and Forests in such fields as forest inventory and protection. We also conduct research into tree fertilization, growth and yield.

In recent years, much emphasis has been put on the regeneration program which we conduct jointly with the Department of Lands and Forests. During the past year this program continued at a high level, but the same problems of cost and labor availability that affect pulpwood harvesting must eventually force mechanization of tree planting and forest tending operations as well. Through these programs, we expect to apply increasingly more intensive forest management practices in the future with the objective of growing more wood per available acre.

As we continue to develop our forest areas for the harvesting of tree crops we keep adding to the more than 1,000 miles of gravel roads which we have built over the years. Construction of these roads also opens more and more public recreational areas for camping, hunting and fishing. We wholeheartedly support the concept of multiple use of forest areas and in a growing healthy forest. People are a part of that picture, so is logging.

Our Efforts Against Pollution

Before the end of 1970 the company's entire primary effluent treatment system for its liquid wastes, commonly known as effluent, will be in operation. As a result of these efforts the company has received wide recognition for its work in pollution control. For example, Hon. George A. Kerr, Q.C., Minister of



Net earnings as a percentage of shareholders' equity at year-end; shareholders' equity is defined in the glossary on page 23.

1969 BY QUARTERS

'000 omitted

Quarter	Total Sales	Oper. Profit	Net Earnings
First	$17,523	$ 3,904	$ 961
Second	19,526	4,522	1,223
Third	17,121	3,909	1,041
Fourth	21,056	5,616	1,814
	75,226	17,951	5,039

Total sales are before dollar exchange; the other two items include profit from U.S. dollar exchange.

NET BY QUARTERS

Net earnings per share of total shares issued at end of 1969

Quarter	1969	1968	1967	1966
First	$0.27	$0.15	$0.29	$0.33
Second	0.34	0.24	0.30	0.42
Third	0.29	0.14	0.28	0.36
Fourth	0.50	0.33	0.30	0.41
	$1.40	$0.86	$1.17	$1.52

During the year we issue quarterly reports of shipments, sales, earnings and other results of our operations.

Energy and Resources Management for Ontario, stated publicly in October 1969 that the Great Lakes Paper Company was an example of a progressive company taking a progressive attitude towards minimizing the discharges of wastes into the Kaministiquia River.

Our treatment facilities, which incorporate the most advanced techniques in effluent control, began operating in 1967 with the completion of our kraft pulp mill primary effluent system. The photograph on page 4 shows the clarifier in the foreground in which suspended solids are permitted to settle while surface matter is skimmed off the top. These waste materials are then removed and burned. The facilities also provide for an automatic blending process which brings together the alkali and acid effluent to form a neutral liquid.

The newsprint mill effluent facilities called for a special main sewer system to intercept all existing sewers in the newsprint mill, several of which had been built prior to 1930. This system also features a combined collecting basin and pumping station capable of handling up to 60,000 gallons a minute. From here the effluent will be pumped to a clarifier system similar to the one for the kraft mill. The treated liquid will then join the outfall from the kraft treatment plant which enters the existing distribution system on the river bottom to be discharged evenly into the main stream of the Kaministiquia River.

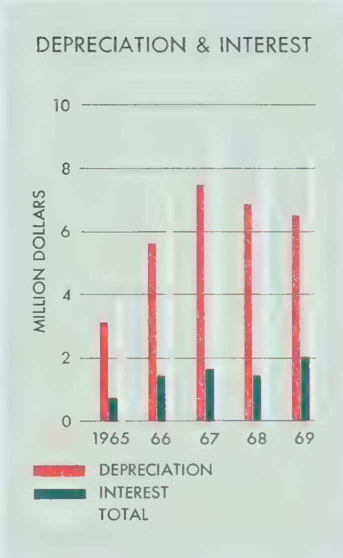
An integral part of the effluent treatment system is the automatic control and data-gathering facilities which provide a continuous flow of information on the various streams of effluent. This information will assist in determining the eventual requirements for secondary treatment which deals with the removal of dissolved solids.

$6.4 Million on Pollution Abatement Since 1964

Our air pollution abatement program has advanced steadily since the opening of the kraft pulp mill in 1966 and as in the case of our effluent system, we continue to work in close co-operation with the Ontario Government regulatory body. From 1964 to the close of 1969 we have made capital expenditures of $6.4 million on all our pollution control facilities. It is our aim to meet the objectives set by the regulatory authorities with respect to both air and water pollution.

Odors and other types of discharge resulting from our manufacturing processes have been greatly reduced as our control systems reach their peak levels of efficiency. The electrostatic device in the main stack system of our kraft mill, which controls the escape of solids into the atmosphere, has undergone a number of improvements since it was placed in operation. We can now maintain its efficiency at the highest level under normal operating conditions.

The most serious problem we faced was in the operation of our odor control system which was designed by the leading experts in this field of pollution control. The equipment required extensive modification before it could meet the unforeseen operating difficulties we encountered as a result of the unusually high pitch content in the species of jackpine found in our area. After a great deal of experimentation and engineering work we have finally overcome most of these difficulties and the system is now operating at design efficiency. While we have made considerable progress in reducing the odors, our technical and engineering staff will continue to work with the regulatory authorities to find new ways of improving our control systems.



Increased interest charges in 1969 are discussed on page 7. Depreciation charges continued a downward trend as explained on page 6.

Labor Union Agreements

We will be negotiating new agreements with the mill and woods unions during the year. The present mill union contracts terminate on April 30, 1970 and the woods contract on August 31, 1970.

Newsprint Capacity

Capacities of newsprint mills in Canada are rated by independent statisticians on a standard formula of performance per day; annual capacities are these daily ratings multiplied by the number of workdays a mill has in a year. Our rated capacity of 444,541 tons for 1970 is on the basis of continuous operation, seven days per week.

While seven-day operation is available to us under agreements with our unions, we have not yet had the opportunity of using the additional production. Thus we enter 1970 with a reserve of capacity to meet future growth in our customers' newsprint demand.

Company Outlook

A gradually expanding market combined with the increase in price should contribute to a continued improvement in our newsprint sales in 1970. The projection by the Newsprint Association of Canada in 1969 of a 2.8 percent rate of increase in the annual growth of U.S. newsprint demand up to 1975 is supported by an American Newspaper Publishers Association report of December 5, 1969 which projects an even higher average rate of three to four percent per year. While the rate of growth in U.S. newsprint capacity will level off in the next few years, U.S. producers will continue to provide strong competition for Canadian newsprint in that market. We should, however, continue to meet the competitive challenge. We can expect to see improvement in our newsprint sales over the next few years as we share in the anticipated growth of demand.

With the increasing demand for kraft pulp in the U.S. and the improvement in the sulphite pulp market, we estimate that our shipments of chemical pulp will continue to increase in 1970 over previous years. Recovery of pulp prices in 1969 is expected to be followed by real gains in 1970. The unprecedented growth in capacity for the manufacture of bleached kraft pulp in recent years still exerted pressure on the pulp market in 1969, but its influence began to diminish as demand gained strength and climbed to new high levels by the end of the year. Growth of demand shows every sign of continuing into 1970.

In spite of the expected growth in our total sales in 1970 and the improvement in prices, our earnings will continue to be affected by increasing costs. Earnings will also be affected by such unpredictable factors as dollar exchange rates, taxes and other government charges.

Weighing all factors, however, we expect that 1970 will see an improvement in our earnings over 1969. There is every reason to believe that our company will continue to maintain a strong position in its various markets with such positive factors in its favor as geographical location and transportation advantages, quality products, highly mechanized mill and woods operations and unsurpassed northern softwood resources.

COMPANY OWNERSHIP

Percentages owned in Canada of shares issued end of 1969.

1969	1968	1965	1960
93.1	94.2	93.7	91

The above percentages are at year-end in each case. Canadian ownership has exceeded 90 percent since 1957. Number of shareholders at end of 1969 was 5,418. Ten-year records are on pages 22-23.

NEWSPRINT PAPER

Rated capacities of newsprint producers in Canada and other newsprint data may be obtained from reports issued by Newsprint Association of Canada, on which the six tables below are based. World totals in these tables omit communist countries for which reliable information is lacking and some of the 1969 figures are subject to revision by NAC.

TOTAL WORLD SUPPLY

'000 tons	1969	1968	1960	1955
World capacity	22,880	22,033	16,009	11,657
World production	20,355	18,792	14,017	11,509
Operating ratio (%)	89.0	85.3	87.6	98.7

CANADIAN PRODUCTION

'000 tons	1969	1968	1960	1955
Total capacity	9,857	9,655	7,611	6,064
Tons produced	8,758	8,031	6,739	6,191
Excess capacity	1,099	1,624	872	nil
Operating ratio (%)	88.9	83.2	88.5	102.1

CANADIAN PERCENTAGES

	1969	1968	1960	1955
Of world capacity	43.1	43.8	47.5	52.0
Of U.S. supply	65.3	66.2	71.5	76.9
Of world production	43.0	42.7	48.1	53.8
Of world exports	73.9	73.1	77.6	80.3

WORLD DEMAND & IMPORTS

'000 tons	1969	1968	1960	1955
Total demand	20,575	19,113	14,201	11,667
Total imports	11,105	10,366	8,192	7,315
Import % of total	54.0	54.2	57.7	62.7

CANADIAN SHIPMENTS

'000 tons	1969	1968	1960	1955
Tons to U.S.	6,417	6,107	5,279	5,070
To overseas markets	1,616	1,315	986	735
To Canadian buyers	708	674	487	430
Total tons shipped	8,741	8,096	6,752	6,235

U.S. SUPPLY SOURCES

'000 tons	1969	1968	1960	1955
Tons from Canada	6,417	6,107	5,279	5,070
From U.S. mills	3,116	2,834	1,954	1,374
From Europe	293	284	147	146
Total tons of supply	9,826	9,225	7,380	6,590

BLEACHED KRAFT PULP

The U.S. is by far the largest user of chemical pulp. In 1969 U.S. demand for market bleached kraft pulp was 3.1 million tons, which was 34 percent of total world demand of nine million tons. These amounts represent the free movement of market pulp and do not include shipments between integrated buyers and sellers. The accompanying table shows the three principal sources of U.S. market bleached kraft pulp. Canada's shipments to this market represent 56 percent of the total.

Preliminary estimates indicate that total world consumption of bleached kraft pulp in 1969, including integrated tonnage, was approximately 25 million tons.

U.S. SUPPLY SOURCES

'000 tons	1969	1968	1960	1955
Tons from Canada	1,726	1,314	873	573
From U.S. mills	1,346	1,055	531	591
From Scandinavia	34	65	86	97
Total tons of supply	3,106	2,434	1,490	1,261

Source: Canadian Pulp & Paper Association

Source and Application of Funds

consolidated statement for years ended December 31st (thousands of dollars)

	1969	1968
SOURCE OF FUNDS		
Net earnings as reported on page 17	$ 5,039	$ 3,089
Charges not requiring an outlay of funds		
Depreciation and depletion	6,528	6,881
Decrease in deferred income taxes	(1,250)	(1,450)
FUNDS FROM OPERATIONS	10,317	8,520
Other sources		
Net proceeds from issue of bonds (Note 2)	19,469	—
Special refundable federal tax	—	491
Sale of fixed assets	89	126
	29,875	9,137
APPLICATION OF FUNDS		
Expenditures on fixed assets	2,704	2,222
Reduction of long-term debt	4,373	4,343
Dividends declared	3,603	3,603
	10,680	10,168
INCREASE (DECREASE) IN WORKING CAPITAL	19,195	(1,031)
WORKING CAPITAL AT BEGINNING OF YEAR	7,139	8,170
WORKING CAPITAL AT END OF YEAR	$26,334	$ 7,139

Earnings and Retained Earnings

consolidated statement for years ended December 31st (thousands of dollars)

	1969	1968
Total sales	$75,226	$66,086
U.S. dollar exchange premium	5,518	4,737
	80,744	70,823
Cost of sales and delivery expense	61,279	54,936
Selling and administrative expenses	1,514	1,432
	62,793	56,368
Operating profit	17,951	14,455
Other income, including term deposit interest	1,059	225
	19,010	14,680
Interest on long-term debt	2,036	1,440
Depreciation and depletion	6,528	6,881
	8,564	8,321
Earnings before provision for income taxes	10,446	6,359
Provision for income taxes—current	6,657	4,720
deferred	(1,250)	(1,450)
	5,407	3,270
NET EARNINGS for year	5,039	3,089
Retained earnings at beginning of year	24,949	25,463
	29,988	28,552
Dividends declared on common shares	3,603	3,603
Bond issue discount and expense (Note 6)	531	—
	4,134	3,603
RETAINED EARNINGS at end of year	$25,854	$24,949

Consolidate

at December 3

ASSETS	1969	1968
Current Assets		
Cash	$ 1,463	$ 1,352
Short-term deposits including accrued interest	18,720	—
Accounts receivable	11,278	10,623
Inventories at cost or net realizable value, whichever is lower:		
Finished goods	307	293
Stores, pulpwood and other raw materials	5,897	5,913
Expenditure on pulpwood operations	3,236	2,978
Prepaid insurance and other expenses	172	201
	41,073	21,360
Fixed Assets—at values placed thereon at the inception of the company with subsequent additions at cost:		
Land, buildings, machinery, woodlands improvements and equipment	122,282	120,096
Accumulated depreciation	67,860	61,940
	54,422	58,156
Woodlands under lease	3,945	3,961
Accumulated depletion	3,532	3,369
	413	592
Signed on behalf of the Board:	54,835	58,748
C. J. W. Fox, *Director*		
R. G. Meech, *Director*	$95,908	$80,108

alance Sheet

sands of dollars)

LIABILITIES	1969	1968
Current Liabilities		
Accounts payable and accrued charges	$ 5,768	$ 4,802
Income and other taxes payable	3,697	4,175
Dividend payable	901	901
Current portion of long-term debt	4,373	4,343
	14,739	14,221
Long-Term Debt (Note 4)		
First Mortgage Bonds		
4% sinking fund bonds, Series A, maturing 1975	7,590	8,270
8% sinking fund bonds, Series B, maturing 1989	20,000	—
	27,590	8,270
Debentures		
5% sinking fund debentures maturing 1976	2,702	3,753
5¾% serial debentures, Series B, maturing 1970-1972 ($4,280,000 U.S. funds)	4,601	6,138
5¾% serial debentures, Series C, maturing 1970-1975 ($6,000,000 U.S. funds)	6,450	7,525
	13,753	17,416
	41,343	25,686
Portion due within one year	4,373	4,343
	36,970	21,343
Deferred Income Taxes	15,780	17,030

SHAREHOLDERS' EQUITY

Common shares without par value (Note 5)		
Authorized 4,500,000 shares		
Issued 3,602,603 shares	2,565	2,565
Retained earnings	25,854	24,949
	28,419	27,514
	$95,908	$80,108

Notes to the Financial Statements

1. Current assets and current liabilities in U.S. funds have been stated in Canadian dollars at exchange rates in effect at December 31, 1969. Long-term debt repayable in U.S. funds has been converted to Canadian dollars at the exchange rate in effect at date of issue.

2. The company issued $20 million 8% First Mortgage Sinking Fund Bonds, Series B, on June 25, 1969. The net proceeds amounted to $19.5 million to be applied towards the financing of a capital expenditure program to cost an estimated $25 million for modernization and expansion of plant and equipment. Until such time as funds are required for this program, the balance of proceeds is available for general purposes and has been included in working capital.

3. The company has signed leases (with options to purchase) covering certain woodlands camps and equipment for periods of two to seven years. The payments under these leases amounted to $809,000 in 1969. Payments will amount to $615,000 in 1970 and thereafter in reducing amounts to $107,000 in 1974.

4. Payments (expressed in Canadian funds) required to meet serial maturities and sinking fund provisions of long-term debt over the next five years approximate $4.4 million in 1970, $4.8 million in 1971, $4.4 million in 1972, and $2.4 million in each of the years 1973 and 1974.

5. Common shares were reserved at December 31, 1969 for the following:

(a) 178,538 shares for outstanding options entitling customers to acquire, under the terms of the options, shares at $25.00 per share exercisable not later than December 31, 1973.

(b) 49,480 shares under a share option plan for the granting of options to certain executive and other employees of the company or of any subsidiary of the company. Options to acquire, under the terms of the plan, 29,405 shares at $24.50 per share exercisable not later than June 1, 1975 were outstanding at December 31, 1969.

(c) 200,000 shares for the common share purchase warrants which accompanied the First Mortgage Sinking Fund Bonds, Series B. The warrants are exercisable at $31.00 per share up to July 1, 1974 and at $33.00 per share from that date until July 1, 1979 when the warrants expire.

6. The discount on long-term debt issued during the year has been charged to retained earnings since the annual amortization of such discount in future years is not material.

7. The trust deeds securing the long-term debt contain the restriction that after any dividend is declared working capital (which for these purposes is before the deduction of the current portion of long-term debt) must be over $5 million and retained earnings must be over $7.5 million.

8. Directors' fees amounted to $79,000 in 1969 and the total remuneration, including directors' fees, received by the directors and senior officers amounted to $409,000 in 1969.

9. Based on actuarial reports, unfunded past service pension costs resulting from retroactive increases in benefits amounted to $1.5 million at December 31, 1969. Past service costs are being amortized over 20-year periods from the dates such costs were established. The amount charged to earnings was $123,000 in 1969.

10. For comparative purposes, certain 1968 figures have been restated to reflect minor reclassifications.

Auditors' Report to the Shareholders

To the Shareholders of The Great Lakes Paper Company, Limited

We have examined the consolidated balance sheet of The Great Lakes Paper Company, Limited and its subsidiaries as at December 31, 1969 and the consolidated statements of earnings and retained earnings and source and application of funds for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion these consolidated financial statements present fairly the financial position of the companies as at December 31, 1969 and the results of their operations and the source and application of their funds for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

RIDDELL, STEAD & CO.
Chartered Accountants

TORONTO, ONTARIO, January 24, 1970

* * *

OUR ACCOUNTING POLICY AND METHODS

Our consolidated financial statements are prepared in accordance with generally accepted accounting principles applied on a consistent basis over the years. Significant items are explained below and in notes to the financial statements on page 20.

Inventories

In general, our inventories are valued at average cost which is less than the net amount we would realize from our selling price for the finished product, after deducting cost of completing manufacture and delivery.

Fixed Assets

Land, buildings, machinery, woodlands improvements and equipment are carried at the values placed on them at the inception of this company in 1936, which was the estimated cost to the predecessor company, with subsequent additions at cost. The assets stated at inception values amount to approximately $10 million at estimated cost and are fully depreciated.

The value of woodlands under lease at the inception of the company was determined by deducting the value of all other assets from the liabilities of the company, including issued share capital. Such inception value represents approximately $2.8 million. Subsequent additions carried at cost bring the present balance up to $4 million.

Depreciation and Depletion

Depreciation charged against our earnings is provided annually on the diminishing balance basis. The main rates used are ten percent for mill buildings, machinery and equipment (representing over 90 percent of the total depreciable balance) and 30 percent for woodlands improvements and equipment. In accordance with accepted practice we do not charge depreciation on major projects against our earnings until construction has been completed.

For this purpose we define a major project as one costing over $500,000. Depletion of our natural resources is included with depreciation in the financial statements and represents about two percent of the total.

Deferred Income Taxes

In the first few years following acquisition of a capital asset, the depreciation we claim for income tax purposes under present tax law exceeds the depreciation we actually show in our financial statements. This situation is reversed, however, in later years. As a result, the taxes charged to earnings during the initial period exceed actual tax payments. The excess amounts are set aside as deferred income taxes to be drawn upon in future years when the amount of taxes charged to earnings falls below actual tax payments.

FINANCIAL SUMMARY: LAST TEN YEARS

Except as indicated dollars are in thousands with 000 omitted.

	1969	1968	1967	1966	1965
SALES & EARNINGS					
Total sales	75,226	66,086	69,223	63,857	46,872
Operating profit	17,951	14,455	17,511	17,886	15,746
U.S. dollar exchange profit or loss*	5,518	4,737	5,123	4,383	3,434
Interest charges on long-term debt	2,036	1,440	1,673	1,478	774
Depreciation and depletion charges	6,528	6,881	7,506	5,637	3,167
Earnings before providing for income taxes	10,446	6,359	8,510	10,924	11,863
Provision for income taxes	5,407	3,270	4,300	5,450	6,165
Net earnings, total amount	5,039	3,089	4,210	5,474	5,698
Percentage up or down* from previous year	63.1	26.6*	23.1*	3.9*	12.9
Net earnings per common share; see note below	1.40	0.86	1.17	1.52	1.58
Net earnings per ton of total shipments; tons on page 24	9.72	6.55	8.53	11.81	16.15
Preferred dividends declared	nil	nil	nil	nil	nil
Common dividends declared, total amount	3,603	3,603	3,602	3,600	3,600
Dividends per common share; in cents	100	100	100	100	100
Dividend percentage of earnings per share	71	116	86	66	63
ASSETS & LIABILITIES					
Current assets, at year-end	41,073	21,360	20,655	23,080	19,734
Current liabilities, at year-end	14,739	14,221	12,485	16,964	11,235
Ratio of above assets to liabilities	2.8	1.5	1.6	1.4	1.8
Working capital	26,334	7,139	8,170	6,116	8,499
Inventories, described in balance sheets	9,440	9,184	11,464	11,879	9,308
Annual expenditures on properties	2,704	2,222	3,671	13,558	28,093
Fixed assets, as described in balance sheets	122,282	120,096	118,656	115,269	102,419
Long-term debt, at year-end	36,970	21,343	25,686	30,009	34,313
Above debt as percentage of capitalization	56.5	43.7	47.8	52.3	57.4
Deferred income taxes, explained on page 21	15,780	17,030	18,480	16,565	11,115
Accumulated depreciation and depletion	71,392	65,309	59,111	51,822	46,734
Retained earnings, at year-end	25,854	24,949	25,463	24,855	22,981
EQUITY & OTHER DATA					
Common shares issued; see note below	3,602,603	3,602,603	3,602,603	3,600,523	3,600,083
Number of common shareholders, at year-end	5,418	6,202	6,402	6,632	6,926
Percentage of shares held in Canada, at year-end	93.1	94.2	93.8	93.6	93.7
Shareholders' equity, total	28,419	27,514	28,028	27,367	25,483
Shareholders' equity per common share	7.89	7.64	7.78	7.60	7.08
Net earnings percentage return on above equity	17.7	11.2	15.0	20.0	22.4
Net earnings percentage on total sales	6.7	4.7	6.1	8.6	12.2
Total cash flow	10,317	8,520	13,630	16,562	16,684
Cash flow per common share	2.86	2.36	3.78	4.60	4.63
Yearly earnings retained in the business	905	—514	608	1,874	2,098
Number of employees on payroll, at year-end	2,857	2,693	2,590	3,077	2,406

All figures per share are on 3,602,603 shares issued up to the end of 1969 out of 4,500,000 authorized.

Production and shipments are summarized on page 24.

1964	1963	1962	1961	1960
41,150	39,195	38,360	38,269	38,409
14,068	13,523	13,186	10,730	10,181
2,986	2,903	2,598	674	880*
821	863	913	959	1,008
3,032	3,131	3,285	3,208	3,389
10,417	9,672	9,086	6,645	5,822
5,370	5,000	4,730	3,585	3,125
5,047	4,672	4,356	3,060	2,697
8.0	7.3	42.4	13.5	41.9
1.40	1.30	1.21	.84	.72
16.13	15.74	14.98	10.51	9.29
nil	nil	nil	nil	120
3,600	2,880	2,340	2,100	1,920
100	80	65	58	53
71	62	54	69	74
14,855	20,248	18,240	16,947	15,480
5,879	6,015	6,260	6,107	5,927
2.5	3.4	2.9	2.8	2.6
8,976	14,233	11,980	10,840	9,553
7,262	7,236	8,028	8,732	8,027
11,115	1,767	3,079	2,133	601
74,653	63,846	62,818	60,116	58,102
38,596	18,138	19,180	20,222	21,264
62.3	45.3	48.8	51.4	53.9
3,295	873	735	775	775
43,921	41,224	38,858	35,976	32,854
20,883	19,436	17,643	15,628	14,668
3,600,000	3,600,000	3,600,000	3,600,000	3,600,000
6,340	6,295	6,077	5,834	5,291
92.9	93.3	92.7	91.8	91.0
23,383	21,936	20,143	18,128	17,168
6.50	6.09	5.60	5.04	4.77
21.6	21.3	21.6	16.9	15.7
12.3	11.9	11.4	8	7
10,501	7,804	7,641	6,268	5,967
2.92	2.17	2.12	1.74	1.66
1,447	1,792	2,016	960	714
2,100	1,890	1,873	1,687	1,756

*Net earnings per common share in 1960 reflect payment of preference dividends. The last of preference shares (Class B) were cancelled Dec. 31, 1960.

GLOSSARY OF TERMS

TOTAL SALES: Total amount we obtain from the sale of our products before deducting costs of delivery to customers and before dollar exchange.

OPERATING PROFIT: Profit we get from manufacture and sale of our products after deducting all costs except interest charges, depreciation and depletion, and income taxes. Applies to operations only; does not include investment or other form of income.

DEPRECIATION: A portion of the original cost of our fixed assets (defined below) which we write off each year as a deduction from earnings; our method of application and details of our policy are fully explained in this report.

DEPLETION: Similar to depreciation but applies to our usage of pulpwood from our licensed forest areas.

NET EARNINGS: Our total income less all costs; the net amount available to pay dividends or retain for use in our business.

CASH FLOW: Total funds generated by operations in a year. In our case, cash flow includes net earnings, charges not requiring cash outlay such as depreciation and depletion and the amount by which deferred income taxes have increased or decreased during the year.

RETAINED EARNINGS: Accumulated total of our annual net earnings since the start of the company (1936) less dividends to shareholders during the same period and after taking into account extraordinary items such as bond and debenture issue discount and expense.

CURRENT ASSETS: Cash and all assets we can normally expect, within a year, to convert into cash or to consume in the process of earning income.

FIXED ASSETS: Long-term assets, such as land, buildings, plant and equipment, which we hold for earning income rather than for sale or conversion.

CURRENT LIABILITIES: Amounts we owe (including a portion of long-term debt) due for payment within one year.

LONG-TERM DEBT: Amounts we owe from borrowing money by issues of bonds and debentures.

SINKING FUND: Amounts we pay to independent trustees of our bond and debenture issues, as stipulated in the trust deeds of these issues, to provide annual instalments for their redemption.

WORKING CAPITAL: Amount by which our current assets exceed our current liabilities, both as defined above. This is a measure of our working or operating resources.

BALANCE SHEET: Statement of our financial position at a year-end showing what we possess (assets of all kinds) versus what we owe (liabilities of all kinds) and shareholders' equity; set forth in accordance with Ontario Corporations Act. The word "consolidated" means that all subsidiaries are included to show position of our enterprise as a whole.

SHAREHOLDERS' EQUITY: Value of the shareholders' ownership or interest in the company, shown on our balance sheet. Consists of share capital plus retained earnings and is the amount by which our assets exceed our liabilities.

TONNAGE SUMMARY: LAST TEN YEARS

Financial Summary on two preceding pages: 22 and 23.

TONS OF PRODUCTS SHIPPED TO CUSTOMERS

Years	Newsprint	Chemical Pulps	Total Tons
1960	267,777	22,480	290,257
1961	267,797	23,313	291,110
1962	268,943	21,839	290,782
1963	275,686	21,067	296,753
1964	296,059	16,744	312,803
1965	337,045	15,737	352,782
1966	374,081	89,322	463,403
1967	362,443	131,020	493,463
1968	314,503	157,262	471,765
1969	350,709	167,918	518,627

In both newsprint and pulps, annual shipments sometimes exceed production and vice versa. These differences between production and shipments are balanced by inventory changes and are so negligible that our shipments of chemical pulps recorded above may be taken as representing also our production of these pulps for sale to customers. Our kraft pulp mill started operation in the month of April 1966.

NEWSPRINT TONS AND OPERATING RATIO

Years	Capacity	Production	Ratio (%)
1960	359,676	268,468	74.6
1961	357,348	268,619	75.2
1962	356,356	269,794	75.7
1963	356,048	272,956	76.7
1964	370,182	296,903	80.2
1965	368,676	336,377	91.2
1966	389,914	374,672	96.1
1967	422,956	363,977	86.1
1968	428,868	311,237	72.6
1969	437,030	350,795	80.3

For 1970 our newsprint capacity is rated by the Newsprint Association of Canada as 444,541 tons. Since 1967 capacity has been rated on the basis of continuous operation.

GROWTH OF NEWSPRINT SHIPMENTS

Index numbers with *1955 as 100

	1960	1963	1965	1967	1968	1969
Great Lakes Paper	173	178	218	234	203	227
Total by Canada	108	106	124	128	130	140
Total by U.S.	131	142	141	168	190	209

*We undertook a major program of newsprint mill expansion in 1955.

NEWSPRINT SERVICES

Lake Superior Newsprint Co., Chicago, servicing of newsprint paper contracts: BRUCE FALLOWS, *president;* W. D. FROST, J. H. NETHERLAND, R. A. SCHMIDT, *vice-presidents.*

SALE OF PULP

Lake Superior Pulp & Paper Inc., Chicago and New York, sale of kraft and sulphite: BRUCE FALLOWS, *president;* R. L. NASH, *vice-president.*

AGENTS AND REGISTRAR

Our transfer agents are The Royal Trust Company, Toronto, Montreal, Calgary and Regina, and the Bank of Montreal Trust Company in New York. Our registrar is The Canada Trust Company, Toronto, Montreal, Calgary and Regina.

BOARD OF DIRECTORS

ROBERT A. BROWN, JR. *president, Home Oil Company Limited*	Calgary	1969
C. J. CARTER *vice-president, Great Lakes Paper Company*	Fort William	1947
*WILBUR C. COCHRANE *chairman, Cochrane-Dunlop Hardware Ltd.*	Toronto	1942
*C. J. WARWICK FOX *president, Great Lakes Paper Company*	Fort William	1953
*PERCY M. FOX *chairman of the board, Great Lakes Paper Company*	Montreal	1952
C. J. JEFFERY *vice-president, Great Lakes Paper Company*	Fort William	1947
HON. RAY LAWSON *chairman, Lawson & Jones Limited*	Oakville, Ontario	1936
L. S. MACKERSY *vice-president and director, North American Life Assurance Company*	Toronto	1957
V. IRWIN MAIER *chairman, The Journal Company*	Milwaukee, Wisconsin	1968
C. BLAKE MCDOWELL *director and general counsel, Knight Newspapers Incorporated*	Akron, Ohio	1952
*R. G. MEECH, Q.C. *director, National Tea Co.*	Toronto	1936
K. A. MINERS *vice-president, Great Lakes Paper Company*	Fort William	1948
B. H. RIDDER, JR. *president, Northwest Publications Inc.*	St. Paul, Minnesota	1957
MURRAY D. SEELEY *vice-president, Great Lakes Paper Company*	Fort William	1956
*IAN D. SINCLAIR *president, Canadian Pacific Railway Company*	Montreal	1969
CARL P. SLANE *chairman, Peoria Journal Star*	Peoria, Illinois	1953
RUSS STEWART *senior vice-president, Field Enterprises Inc., publishers of Chicago Sun-Times and Chicago Daily News*	Chicago	1957
G. GORDON STRONG *president & publisher, Thomson-Brush-Moore Newspapers, Inc.*	Canton, Ohio	1968
JULES R. TIMMINS *senior partner, J. R. Timmins & Co.*	Montreal	1956

**Members of the Executive Committee.*

Years denote beginning of connection with the company.

MANAGEMENT

PERCY M. FOX, *chairman of the board*	1952
C. J. WARWICK FOX, *president & general manager*	1953
K. A. MINERS, *vice-president, finance*	1948
C. J. JEFFERY, *vice-president, manufacturing*	1947
MURRAY D. SEELEY, *vice-president, woodlands*	1956
C. J. CARTER, *vice-president, engineering*	1947
C. R. CADDO, *secretary*	1929
C. R. BOWLES, *treasurer & comptroller*	1964
D. D. MORROW, *assistant treasurer*	1964
M. G. REA, *assistant secretary*	1969
F. H. TOLLEFSEN, *manager, information services*	1966

The location of our manufacturing facilities at Thunder Bay (Fort William), Ontario, places us at the hub of a unique transportation system. From our nearby forest areas our pulpwood is harvested and hauled direct to the mill by rail and truck. Both Canadian railroads and two major shipping lines provide a flexible and dependable transportation network serving our United States newsprint and pulp markets. Our location at the western Canadian terminus of the St. Lawrence Seaway supports direct shipment to the Atlantic coast and overseas destinations, as well as our long-established service to Great Lakes ports.